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Business in Brief

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The steel settlement clears the way for a continued advance in business activity. Production has bounced back rapidly from the strike low. The January figure for the Federal Reserve Board's new index of industrial production should top the previous high of 166 (1947-49 equals 100).

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Inventory building is now providing the major impetus for the advance:

¶ Steel mills are running at 95% of capacity, some 20% above estimated consumption for the year;

¶ Auto companies have scheduled 2¼ million cars for the first quarter – 30-40% above the expected rate of sales of the 1960 models.

In all, some 3% of current production of goods may be going into inventories. That seems like a small amount. However, a dollar spent to build inventories has a multiplier effect – it adds to incomes which are largely spent on other goods and services, creating more income. Very roughly, an additional dollar of inventory buying operates to increase total national production by $3.00, including the dollar going into inventories.

The annual rate of inventory building could rise by $10 billion between the fourth quarter of 1959 and the second quarter of this year. This could provide a sizeable impetus to production, employment and income.

As their incomes rise, consumers can be expected to spend more, while continuing to save about 6½% of incomes after taxes. Thus, consumer markets should continue to display basic strength.

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The upsurge in production based on inventory building and consumer expenditures could lift operating rates in many industries to the point where new capital expenditure programs would be viewed with favor. At the same time, the cash flow from earnings and depreciation would support an increase in business investment in new plant and equipment.

Thus, it is possible that business investment might take over as the prime mover in economic expansion later in the year. The problem then would be to maintain the sort of balance among economic factors that would carry prosperity along.

Containing inflationary pressures while maintaining economic growth will pose problems as the year unfolds. Wage increases, including those in steel, have been running to about 4% per annum, as against a long-term increase in the economy's efficiency of 3%.

Thus, the wage-price spiral has not been checked. And the settlement sets back efforts to increase efficiency by modernizing work rules. However, the contract will increase steel employment costs 3¼ to 3¾% a year—less than half the postwar average.

•

If other settlements follow this general pattern, unit labor costs may rise moderately this year, placing upward pressure on industrial prices. History shows this to be a typical phenomenon in a period of expanding activity. This time, however, two forces promise to restrain inflation:

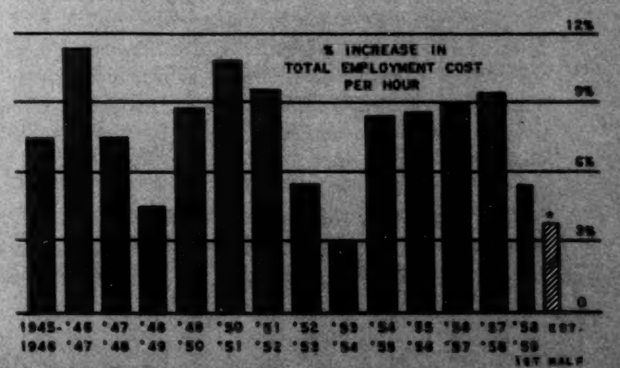
¶ The Federal government budget calls for a surplus of $4.2 billion in the fiscal year starting June 30, 1960.

¶ The Federal Reserve System is keeping a checkrein on the supply of money and credit.

Thus, the nation has been moving in the direction of policies that will support prosperity and stable prices. But it is clear that further efforts will be needed to achieve these objectives.

Resolute effort to check inflation is a necessary condition for restoring a balance in our international payments. The nation cannot hope to carry its vast responsibilities as a leader of the Free World if it indulges in loose policies that promote inflation.

HOW STEEL WAGES HAVE INCREASED IN THE POSTWAR PERIOD



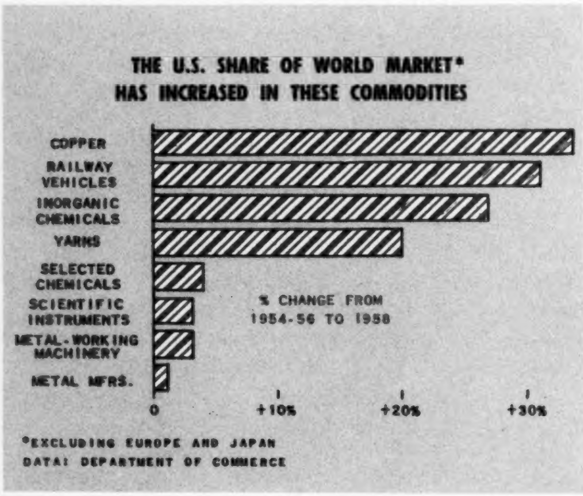
DATA: IRON & STEEL INSTITUTE

*ANNUAL COST OF NEW CONTRACT

FOREIGN PROBLEMS OF THE '60's

In the 1960's the U. S. will face a series of challenges on the international front. These challenges, while not completely new, have come into sharper focus in recent months. They encompass such problems as:

- Maintaining unity in the Atlantic Alliance in face of conflicting national aims;
- Promoting more rapid economic growth in the underdeveloped nations;
- Regaining the initiative in the economic, technological and ideological race with the Soviets;
- Restoring a viable balance in the U. S. international payments accounts.



Each of these problems is different, and each calls for a special response. But all are part of the general problem the U. S. has faced since World War II in assuming the leading role in the defense and economic growth of the Free World.

While basic objectives of the U. S. and other nations have not changed, there have been a number of changes on the world scene that may call for a new approach to specific problems.

Growth in Industrial Nations

Paradoxically, the special difficulties now confronting the U. S. are due more to the growing strength of our industrial allies than to growth in the Soviet Union. At the end of World War II, the U. S. was a relatively immense economic and military power, leading a group of nations that were relatively weak in economic terms, dependent on the U. S., and easily united in their principal aims.

While the U. S. has become even stronger, it now heads a coalition of nations, many of which have grown strong, in part with U. S. aid. Production in Western Europe has almost tripled whereas it has not quite doubled in the U. S. Thus, the Western European economy has moved up from about one-fourth the size of the U. S. in 1946 to more than one-half now. Growth in Japan has been even more rapid than that in Europe.

New Problems

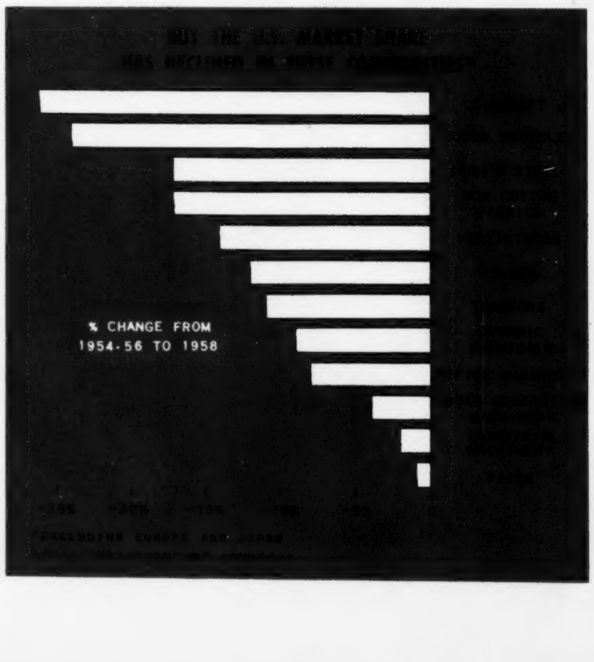
These shifts in relative strength have vastly altered the nature of the U. S. role of leadership. On the one hand, it has made things easier. Europe no longer requires economic support, and a number of Western countries can now absorb a larger part of the burden of military defense and of economic aid to the less developed nations of the Free World.

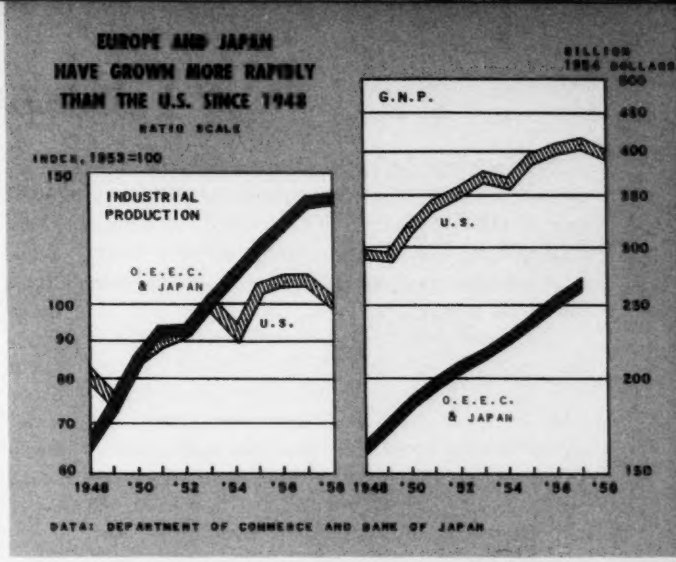
However, it has also created new problems, one of the most important of which is to maintain allied unity. There is the danger that some members of the Western Alliance, having achieved earlier aims, will take up purely national or regional goals at the expense of military and economic goals common to all.

For instance, the current dispute between the six Common Market countries and the seven countries of the European Free Trade Association could divide Europe into opposing trade blocs. While the underlying cohesion and sense of purpose of the European leaders is impressive, it remains true that the best U. S. leadership will be required to help maintain full cooperation among the members of the Atlantic community.

The Balance of Payments

The political problem of cohesion in Europe is closely tied to the economic problem of maintaining a viable balance in the U. S. international financial accounts. The dollar is the keystone of international financial stability.





At the same time, the U. S. role of leadership requires outlays for military and economic purposes abroad, as well as a high level of foreign investments. Therefore, the U. S. must have a substantial surplus of exports over imports to finance these special responsibilities.

The problem in the last two years has been that the balance of trade has shrunk while other foreign commitments have remained almost as high as before. As a result, deficits on the over-all balance of payments rose to about $4 billion a year in 1958 and 1959.

Trade Trends

Part of this rapid rise in the U. S. deficit is explained by business cycle trends here and abroad. Recovery started a year earlier in the U. S. than in Western Europe and Japan. Thus, U. S. imports rose at a time when export markets were still depressed.

However, exports picked up smartly in the third quarter of 1959, to a level 10% above the first quarter low. Further gains in cotton, aircraft and steel are in sight. And the rate of economic growth in other industrial nations promises general strength in markets for U. S. exports.

In addition, restrictions against U. S. exports are being relaxed in Western Europe, Japan and Australia. Such quotas and other devices apply to many products where U. S. prices are relatively low. Estimates are that this freeing of trade might increase U. S. sales to Western Europe by as much as $500 million.

These trends could boost U. S. exports in the next year or so rapidly enough to restore a sizeable export surplus. Various estimates point to a reduction in the balance of payments deficit to an annual rate of $2 billion or less by late 1960.

Beyond that, the U. S. government is now pursuing the traditional policies designed to right an imbalance in international payments – the Federal budget could be balanced in the current fiscal year and in sizeable surplus in fiscal 1961, and the Federal Reserve is applying policies of monetary restraint.

If these developments should suffice to bolster confidence in the stability of the dollar, a deficit of around $1 billion a year in U. S. payments could perform a useful function. A gradual redistribution of part of our gold holdings (half the Free World's official gold reserves) plus a growth in foreign dollar assets would provide the international liquidity needed to support expanding trade.

Financial Aid Problems

If it should turn out that additional measures are needed to balance U. S. foreign payments, a number of avenues can be explored. One concerns the form in which our support of Free World efforts on the defense and economic development fronts should be extended.

• Aid in the form of goods shipped from the U. S. poses no balance of payments problems. Thus, dollar loans or grants to underdeveloped nations are largely spent on U. S. exports, and shipments of missiles or other munitions pose no payments problem.

• Overseas dollar expenditures for troop support, military bases and similar purposes are not necessarily related to U. S. exports. Other nations receive dollars which they can use to purchase gold or add to their reserves in the form of dollar assets.

In the past few years overseas military expenditures in dollars have run to some $3 billion a year, of which over $2 billion has been spent in Western Europe, Canada and Japan. These dollar outlays are equal to a substantial part of the over-all deficit in the U. S. balance of payments. It may be desirable in the future to reduce this dollar outflow by: 1) allocating a larger portion of the mutual defense burden to our allies; and 2) providing a larger share of our support in the form of military and other goods and a smaller share in direct dollar payments.

Longer-Term Problems

Even though developments in U. S. foreign trade and military and economic aid programs could redress the balance of payments situation in the short run, certain long-term problems may persist. As other industrial nations advance economically, they will gain a competitive edge over the U. S. in more and more specific products.

This poses a sharp challenge to U. S. producers, and to the U. S. economy generally. To cope with intensified foreign competition, U. S. exporters must improve marketing techniques and push ahead in developing new and better products. It is the U. S. lead in technology that has enabled us to pay higher wages and still compete in world markets.

By the same token, national economic policies must be directed at containing inflation and encouraging growth in the economy's efficiency. Otherwise, balance of payments deficits might pose persistent problems in view of the responsibilities of the U. S. in the world.

ELECTRONICS

Electronics is the fastest-growing major industry. Its output has multiplied 2½ times since 1950 for a growth rate of 11% per year. That's one-third more than the rate achieved by the second-running major industry, chemicals, and nearly three times the 4% growth rate of total industrial production.

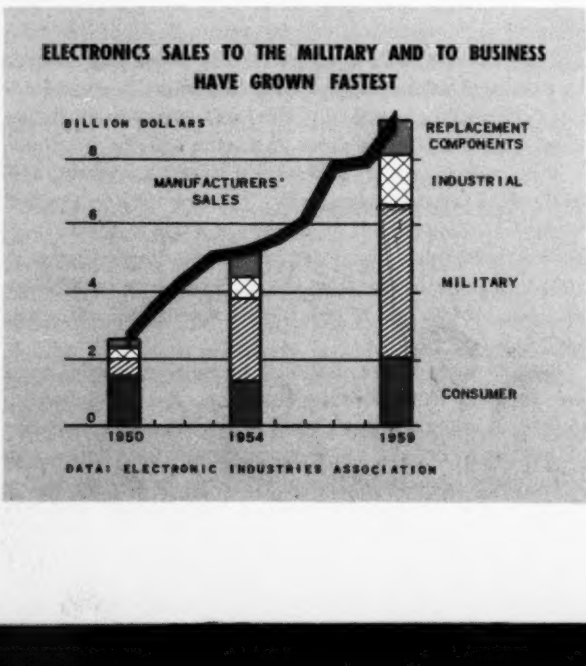
The rapid growth of electronics reflects the accelerating pace of new product development. Before World War II, radio was the industry's principal product. Since then, electronics has been transformed into a basic industry, selling myriads of products and counting among its customers nearly every household, government and business. In fact, progress to date has made electronics the fifth-largest industry in the U. S.

Growing Sales in Four Markets

Total 1959 electronics sales including distribution, service and broadcasting are estimated at $14 billion or 3% of the nation's total output of goods and services. Manufacturers' sales alone are put at $9.2 billion. Of this, some 22% were consumer products such as TV sets, radios and phonographs, 49% were military goods, 17% industrial and communications equipment and the remainder replacement components.

Consumer electronic products appear to be on a new uptrend. Factory sales in 1959, at more than $2 billion, were up 28% over 1958. Although 97% of all households now have at least one radio and 86% at least one TV set, replacement and multiple-set demand is rising. Moreover, automobile radios and portable radio and TV sets are popular, and stereophonic, high-fidelity sound and other quality improvements are stimulating consumer interest.

Military products, up from 19% of electronics sales in 1950 to 49% in 1959, have been, on balance, the fastest growing sector in the industry. However, growth has been uneven being concentrated in the early 1950's (during Korea) and in recent years, when electronic equipment has captured an increasing share of the Defense Department dollar. Meanwhile, the product composition of the industry's sales to the military has undergone dramatic shifts. In 1959, for example, sales of missile-connected gear surpassed those of airplane-connected equipment for the first time.



Industrial equipment seems to have the greatest growth potential for the long run. Demand for computing, testing, measuring, control and communications equipment has been increasing more evenly and almost as fast as that for military products. In the near future, equipment for industry could surpass consumer products to take second place among electronics markets. Industrial electronic equipment can not only ease many exacting or repetitive jobs, but is capable of tasks previously considered too difficult or time-consuming to be practicable. As imagination reveals such applications, the economy as well as electronics makers will benefit.

Component sales are relatively large because the electronics industry is not a highly integrated one. Two-thirds of the industry's 4,600 manufacturers produce tubes, transistors and other components which they sell as replacements and parts of new equipment. The $1.1 billion sold in 1959 as replacements account for about two-fifths of the total component market.

Growth, Change and Competition

Paradoxically, the problems of the electronics industry stem from the same rapid growth and change which mark its bright prospects:

- The industry must spend large sums on research. Estimates are that in 1958 such expenditures totaled $1.4 billion. Of this, $900 million was financed by Government and $500 million (7% of net sales) by the companies themselves.

- Personnel, management and financing must continually be adapted to cope with expanding markets and the rapid rate of product obsolescence.

- The comparative ease of entry into the electronics industry has contributed to a high degree of competition. Moreover, competition from abroad is increasing. Imports of consumer products and components in particular are rising.

Yet, despite these problems of adjustment, the electronics industry holds immense promise. It is an industry in which small firms can advance and compete successfully with the giants for expanding markets. New products, rising living standards and the trend toward automation are contributing to a glowing and dynamic future for the industry. Thus, along with chemicals, electronics has come to epitomize our modern industrial society.

SOME ASPECTS OF THE AMERICAN TAX SYSTEM

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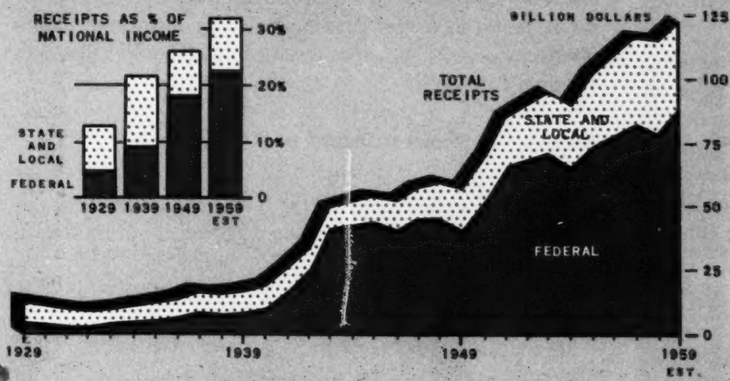

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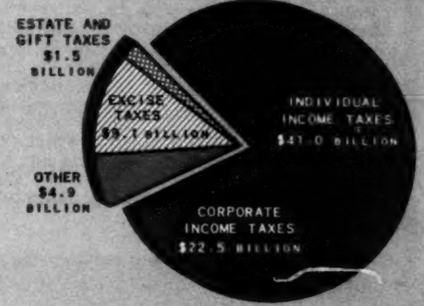

FISCAL 1960 TOTAL – $79.0 BILLION
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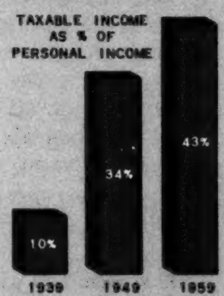

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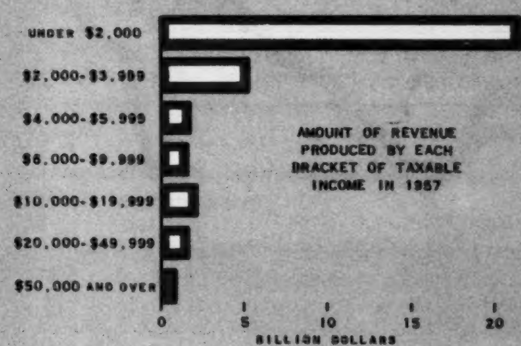

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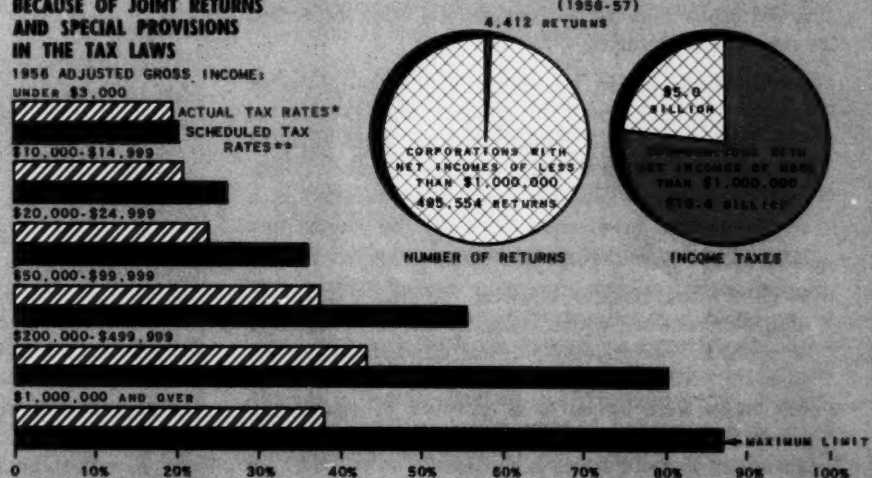

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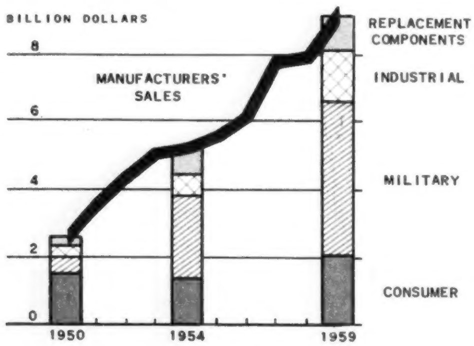

DATA: ELECTRONIC INDUSTRIES ASSOCIATION

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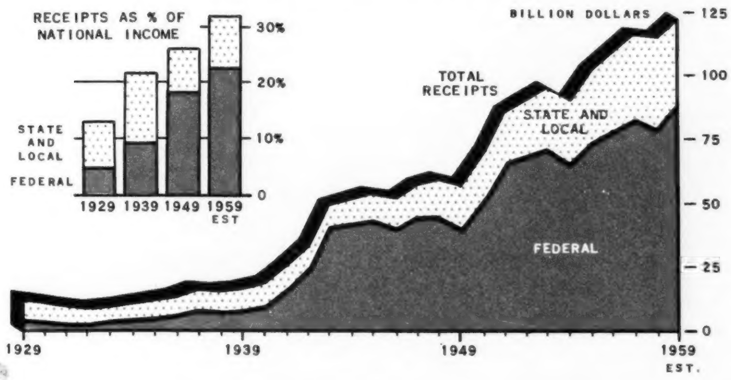

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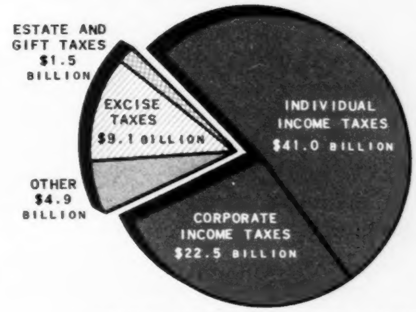

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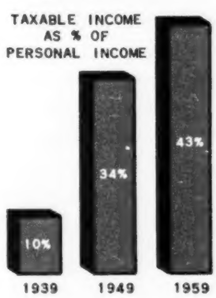

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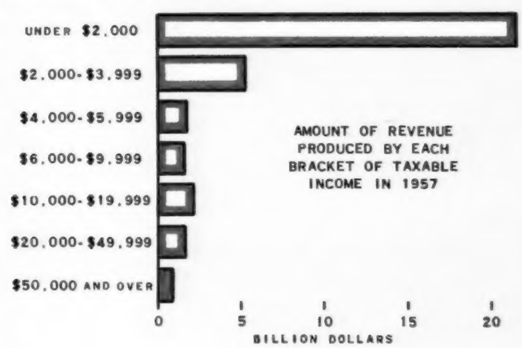

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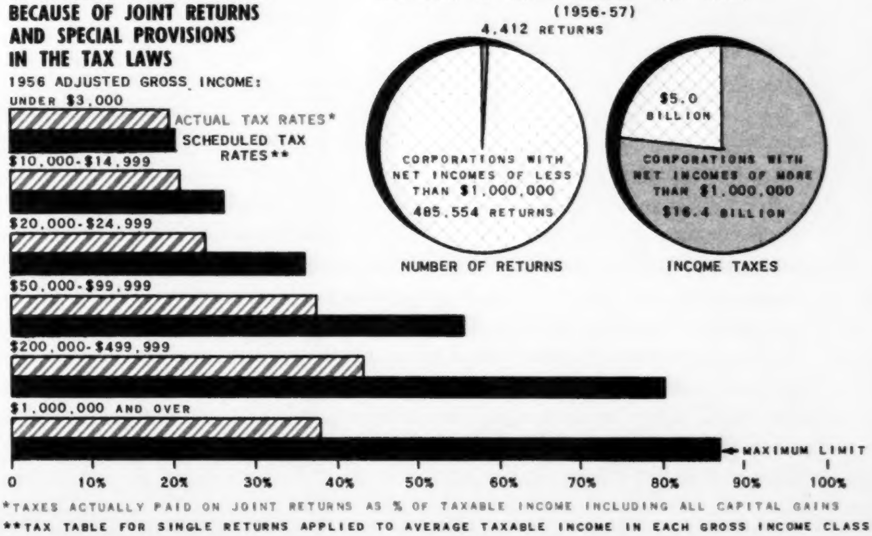

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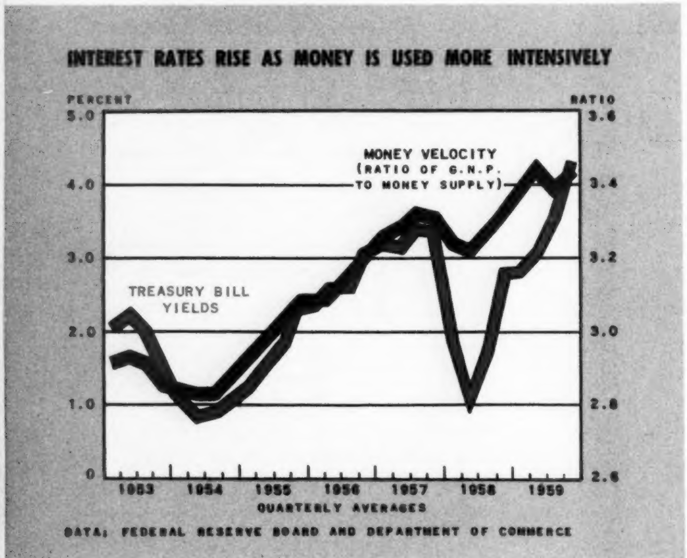
RESTRAINT ON THE MONEY SUPPLY

No lesson is more firmly embedded in economic history than the dangers of rapid monetary expansion during periods of rising prosperity. Experience shows that monetary restraint alone cannot assure complete price stability. But failure to maintain controls on the money supply is a sure path to inflation.

On that score, the record of the past year has been encouraging. Business expansion in 1959 was financed with only a modest rise in the stock of money. In December, the cash holdings of the public – currency and demand deposits together – stood at $140 billion, barely ½% higher than a year earlier. Over much of the latter part of the year, the money supply actually declined.



INTEREST RATES RISE AS MONEY IS USED MORE INTENSIVELY

DATA: FEDERAL RESERVE BOARD AND DEPARTMENT OF COMMERCE

Restraint by the Federal Reserve

The recent stability of the money supply reflects the firm restraints imposed on commercial bank expansion by the Federal Reserve.

• With businessmen, consumers, and home buyers all actively seeking credit to support higher levels of spending, commercial banks increased their loans by roughly $11½ billion in 1959, close to a record. Potentially, that loan expansion could have resulted in a sharp increase in demand deposits, the largest and most volatile element in the money supply.

• The Federal Reserve, however, has limited the availability of reserves, which banks by law must maintain at specified percentages of their deposits. Thus, instead of creating deposits to match their new loans, the banks were forced to raise funds by liquidating about $8 billion Government securities, in many cases absorbing sizeable losses in the process.

An inevitable result of this restraint on the money supply – in a period of heavy credit demands – has been strong upward pressures on interest rates. Those rate increases were necessary to induce non-bank lenders – notably corporations, individuals, and foreigners – to take up the securities sold by banks, to finance the large Treasury deficit, and to maintain their lending to private borrowers as well.

Money "Working Harder"

Prodded by higher rates, the economy has in effect made the existing money supply work harder. Individuals and businesses alike managed to carry on more and larger transactions with roughly unchanged cash balances. In that way the economy generated the funds to support the business expansion.

In the final quarter of the year, the ratio of the gross national product to the money supply – one measure of trends in the turnover or velocity of money – stood at its postwar peak of 3.44, up almost 4% in the space of a year. In contrast, the same ratio was less than 2 at the end of World War II, after war-time finance had left the economy with a redundant supply of money – and with very considerable potential for inflation.

The increase in velocity over the past year does not mean that monetary restraints have been ineffective in braking incipient inflationary pressures. As money becomes more costly and turnover rises, further increases in the rate of spending become more difficult. Over time, spending plans must be reviewed, and the least urgent postponed, or foregone entirely.

Thus, rising velocity is more a symptom of pressures gradually spreading through the financial system than a means of escape from monetary restraint. The objective of the monetary authorities is to permit these financial pressures to build up to the point that inflationary excesses are forestalled, but not to the point that they curb sustainable growth.

Prospects

With velocity and interest rates already at a postwar high, a somewhat larger increase in the money supply may be required in 1960 if the economy is to reach its full potential. So long as the fresh injections of money are held to an amount necessary to support sustainable expansion of physical output, those new funds would not be a source of additional inflationary pressure. However, at a time when the economy is rapidly approaching the limits set by available resources and manpower, the monetary authorities cannot afford to lift the restraints on the banking system. To abandon controls on the money supply in an effort to head off further increases in interest rates would be to abdicate the responsibility of Government for fostering balanced growth with stable prices.

MEASURING UNEMPLOYMENT

A noteworthy feature of recent economic history is that unemployment statistics have shown an average of almost 3 million out of work even in years of high-level business activity. Over the 1955-57 period, for example, unemployment averaged 2.9 million, or 4.3% of the labor force. Does this mean that our economy is failing to provide enough job opportunities in times of good business?

For an answer, one needs to consider the nature of the U. S. economy and the methods used in measuring unemployment. Such a review of the evidence suggests that there may be more job openings than qualified job-seekers even when the reported unemployment rate is 4% or a bit more.

THE UNEMPLOYED: WHO IS COUNTED?

The unemployment figures released each month by the Bureau of Labor Statistics include all those who did not work and who said that they: 1) were looking for work, or 2) were waiting to be called back to a job from which they had been laid off, or 3) were waiting to report to a new job scheduled to start within 30 days and were not in school, or 4) would have been looking for work except that they were temporarily ill or believed no job was available in their line of work or in the community.

Thus, the respondent decides for himself whether he should be classified as currently able and willing to work. The importance of this choice cannot be underrated. Actually, the proportion of the population which is not gainfully employed is closer to 60% than to 5½%, and the problem is to decide who really wants work.

Mobility

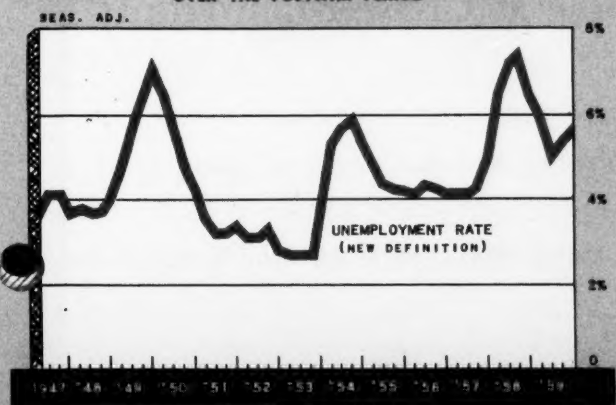
Ours is a dynamic society where individuals are free to select their type of work and place of employment. Each year 7% of the population move their place of residence across county lines and 3% across state lines. As people move from one job to another, as housewives and students enter and leave the labor force, many have an intermediate period of unemployment.

At the same time, the personnel needs of industry are growing and changing. This opens up opportunities for individuals to improve their position by shifting to another job.

A study of the unemployment situation in the period 1957-59 showed that, while recorded unemployment averaged 3.8 million, there were substantial shifts in job status:

- Each month 1½-2 million persons were added to unemployment rolls – about three-fifths had held jobs in the previous month while the rest were new job-seekers.
- Two-thirds of those who went off unemployment rolls each month found jobs; one-third left the labor force.
- Over half those unemployed in any given month found jobs or left the labor force by the following month, and four-fifths did so by the second month. At the other extreme, about 8% remained unemployed after six months.

THE UNEMPLOYMENT RATE HAS AVERAGED 4.5% OF THE LABOR FORCE OVER THE POSTWAR PERIOD



DATA: BUREAU OF LABOR STATISTICS

Forces Behind the Flows

Material recently released by the U. S. Department of Labor helps in analyzing the reasons for unemployment in periods of good business. Such an analysis shows that in 1955-57:

- Voluntary shifts from one job to another accounted for 10% of the unemployment;
- Seasonal factors accounted for more than 20%;
- New job seekers (including some who may have been in the job market in a previous period) accounted for another 20%;
- About 30% might have been due to structural changes in markets – this is the hard core of the unemployment problem as illustrated by the coal mining districts in Pennsylvania and West Virginia.
- Much of the remaining 20% could be attributed to the greater mobility of wives and children who move into and out of jobs for reasons related to the availability of jobs and their personal situations. These groups will make up an increasing proportion of the labor force in the 1960's.

All in all, it is clear that the reported figures on unemployment include people in widely varying circumstances – ranging from those moving to a better job to those who have been out of work for a period of months. And, while there are no reported statistics on job vacancies, it seems clear that in a period like 1955-57 when the unemployment rate averaged 4.3% there were more job openings than qualified job seekers.